Housing Hawaiʻi's Future
PO Box 3043
Honolulu, HI 96802-3043

January 12, 2023

TO: City and County of Honolulu - Department of Planning and Permitting
RE: AHR Rules Revision

My name is Sterling Higa, and I serve as executive director of Housing Hawaiʻi's Future, a nonprofit creating opportunities for Hawaiʻi's next generation by ending the workforce housing shortage.

We support the proposed "Affordable Housing Requirements" rules revisions. And It is especially important to remove the 33% DTI ratio.

Lenders are in the best position to assess a homebuyer's ability to repay their loan. Lenders have skin in the game because they are on the hook for failure to pay. It's literally their job to underwrite loans.

Meanwhile, county and state government have no demonstrated expertise in underwriting home loans.

The county doesn't (and can't) require that families spend less than 33% of their income on rent. And as the ALICE studies show, many families spend much more than 33% of their income on rent. If the county required that families spend less than 33% of their income on rent, the result wouldn't be lower rents–it would be widespread homelessness.

The question is whether the housing cost burden is taken on willingly. In the case of a home loan, the answer is yes, absolutely.

If a family wants to spend 35% of their income to own their home, who is the county to judge that decision? If a family wants to spend 40% of their income to become a homeowner because they value home ownership more than alternative uses of the money, why not?

This is a classic instance of a well-intentioned policy having unintended consequences. In this case, the unintended consequence is preventing many families from become home owners.

Do the right thing. Amend the rule.

Thank you,

Sterling Higa
Executive Director
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hawaiisfuture.org

CENTRAL
PACIFIC
BANK

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December 26, 2023

RE **CENTRAL PACIFIC BANK Testimony IN SUPPORT OF DPP's Proposed Amendments to DPP Rule 2-12(c) [amend]; Rule 2-12(d) [add]; and Rule 3-2(a)(5) [delete]**

I, the undersigned, Arnold Martines, am President and Chief Executive Officer of Central Pacific Bank ("CPB") and submit this testimony on behalf of CPB.

CPB supports Department of Planning and Permitting's ("DPP") proposed amendment to DPP's Administrative Rule 2-12(c) and adding new DPP Rule 2-12(d).

CPB supports DPP's proposal so that Rule 2-12(c) would only apply to projects under an affordable housing agreement that existed before the effective date of this proposed amendment, and Rule 2-12(d) would apply to projects that do not have an affordable housing agreement before the effective date of the proposed amendment.

Present Rule 2-12(c) limits the monthly rent that can be charged for affordable housing units rented to qualifying households to no greater than HUD's Fair Market Rent limits. Qualifying households are those earning 80% and below AMI.

New Rule 2-12(d) limits the monthly rent that can be charged for affordable housing units rented to qualifying households to no greater than the DPP's Income Limits. Qualifying households are those earning 80% and below AMI.

HUD's Fair Market Rent limits are set and intended for specific HUD programs and are too restrictive and inhibit financing and development of affordable and workforce rental housing. Under DPP's Income Limits, affordable and workforce rental housing is more feasible from a financing and development standpoint.

CPB also supports DPP's proposed deletion of DPP's Administrative Rule 3-2(a)(5).

Present Rule 3-2(a)(5) requires that an applicant for an affordable housing unit spend no more than 33% of their gross household income on monthly housing payments.

Present Rule 3-2(a)(5) is overly restrictive as Fannie Mae, Freddie Mac, HUD, and VA guidelines allow their participating financial institutions to make home loans up to 50%, 50%, 57%, and 65% respectively of an individual's gross household income.

In addition, other factors that home lenders consider in offering and making a loan to a borrower and evaluating the borrower's ability to repay the loan include occupancy type, credit score, credit history, down payment, and post-closing reserves.

Sincerely,

Arnold Martines
President & Chief Executive Officer
Central Pacific Bank

2023-6244

OFFICE OF HOUSING
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RICK BLANGIARDI
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DENISE ISERI-MATSUBARA
EXECUTIVE DIRECTOR
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January 12, 2024

The Department of Planning and Permitting
Frank F. Fasi Municipal Building
650 South King Street
6th Floor Conference Room
Honolulu, HI 96813

SUBJECT: Strong Support for Amending AHR Administrative Rules: §2-12 *Affordable Rental Unit Rates* and §3-2 *Eligibility Requirements: Affordable For-Sale Housing Units*

The Office of Housing (HOU) **strongly supports** the proposed amendments to §2-12 and §3-2 of the Department of Planning and Permitting's (DPP) administrative rules that implement the city's Affordable Housing Requirements (AHR). These changes will create consistency in the city's affordable rental rate guidelines and will remove one of the barriers to the delivery of affordable housing. These amendments will enable the city to better facilitate the development of housing opportunities for more moderate-income renters and homebuyers on Oʻahu.

The lack of affordable housing on Oʻahu has been one of the city's most significant and long-standing problems. With the rising cost of construction and current high interest rates, the city's role and responsibility to find viable solutions to our housing crisis cannot be overstated. HOU commends DPP for taking these proposed changes through the rule-making process to help increase the supply of affordable housing. Expanding the affordable housing options requires the city to facilitate the development of housing across the income spectrum, including workforce rental and homeownership units. Residents earning from 80% to 120% of the area median income (AMI) are considered to be in the gap income group as they earn too much to qualify for low-income housing, yet not enough to afford market-rate units. Without a major subsidy program, the city must remove barriers to development of both rental and for-sale affordable housing units for residents in this gap income group.

Section 2-12 currently bases the monthly rent ceiling for households earning up to 80% AMI on the U.S. Department of Housing and Urban Development (HUD) Fair Market Rent (FMR) limits. FMR is not the appropriate table to use for determining rent ceilings for privately financed projects ***for 80% to 100% AMI*** households. HUD's Fair Market Rent limits are typically associated with public housing to determine payment standards for units supported by HUD's Section 8 or Housing Choice Vouchers. To be eligible for this rent subsidy, a family's income may not exceed 50% of the AMI. By law, a public housing agency must provide 75% of its rent vouchers to those whose incomes do not exceed 30% AMI.

As currently written, this rule can adversely affect the financial feasibility of a project and acts as a barrier to the development of workforce rental housing. Furthermore, the current methodology utilized to set rent limits for all other income categories above 80% AMI is different. Rents simply cannot exceed 30% of the maximum income for all of the other AMI levels. The proposed amendments will make the methodology consistent across the spectrum of income categories.

There are other affordable rent guidelines that have successfully facilitated the development of affordable rental housing in Hawai'i. The development arm of the state of Hawai'i, Hawai'i Housing Finance and Development Corporation (HHFDC), adopted by reference, a recognized, dynamic standard that has allowed the state to adapt to changing economic conditions without the need for continual amendments to its rules – HUD's income limit tables.[1] The HUD income limit table is the basis for HHFDC's affordable rent guidelines. The city references HHFDC's rent guidelines for one of its programs aimed at promoting the construction of affordable rental housing (see Exhibit A). The proposed amendments will help create uniformity in the methodology used to set rent limits and also make it feasible for developers to build workforce rental housing.

Section 3-2(a) (5) established an eligibility requirement for homebuyers that restricts them from spending more than 33% of their gross household income on monthly housing payments. Based on feedback from realtors and financial institutions, this debt-to-income ratio is much more restrictive than the standards applied by the private mortgage lending industry. Several projects currently under construction have not been able to sell the majority of their affordable units after being on the market for over a year. It was reported that the vast majority of interested and otherwise eligible buyers do not qualify for units subject to this rule. One lender reported only one out of 50 prospective buyers being able to qualify, yet all of the rejected applicants were able to qualify for another unit which had more reasonable qualifications (under a state affordable housing program). One realtor reported receiving only 27 applications in 10 months for projects subject to this rule, compared to the hundreds received for other affordable projects not subject to this rule. The current rule is not achieving its intended objective of generating affordable housing for homebuyers.

Since it is the financial institution's role to underwrite home loans and verify a homebuyer's ability to repay the loan, §3-2(a) (5) adds an unnecessary layer of complexity for qualifying potential homebuyers. Lender guidelines have qualifying ratios in the 38% - 45% range or higher. The proposed amendments will allow the financial institutions to make the credit determinations regarding a buyer's qualifications for a mortgage loan based on their own underwriting criteria.

Once again, we commend DPP for taking the proposed amendments to these administrative rules through the rule-making process. We strongly support these changes because it will provide developers with more certainty, and allow the city to better facilitate the development of affordable rental and for-sale housing for the residents of O'ahu.

Thank you for the opportunity to provide testimony on this matter.

Very truly yours,

Denise Iseri-Matsubara
Executive Director

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[1] Hawai'i Housing Finance and Development Corporation (2023) Honolulu County Income, Rent, and Sales Guidelines. https://dbedt.hawaii.gov/hhfdc/files/2023/06/2023-HONOLULU-COUNTY-Income-Rent-and-Sales-Guidelines.pdf

Exhibit A

DEPARTMENT OF PLANNING AND PERMITTING
KA 'OIHANA HO'OLĀLĀ A ME NĀ PALAPALA 'AE
CITY AND COUNTY OF HONOLULU

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RICK BLANGIARDI
MAYOR
MEIA

DAWN TAKEUCHI APUNA
DIRECTOR
PO'O

JIRO A. SUMADA
DEPUTY DIRECTOR
HOPE PO'O

October 10, 2023

SENT VIA EMAIL

Dear Applicant:

SUBJECT: Chapter 32 projects (Bill 1 [2021] and Bill 7 [2019])

We would like to take this opportunity to provide some clarity with respect to ***all*** projects developed pursuant to Chapter 32 of the 2021 Revised Ordinances of Honolulu. Upon further review of the Department of Planning and Permitting's (DPP) administrative rules entitled, *Rules to Implement City's Affordable Housing Requirements*, dated March 31, 2019, it was determined that these rules do not apply given that these rules were adopted ***prior to*** the adoption of Bill 7 and implementation of the affordable requirements are set forth in the bill itself.

Rent limits are based on income as set forth under the definitions in §32-1.1 with the area median income being determined by the U.S. Department of Housing and Urban Development (HUD) as applicable by household size. The current Affordable Rent Guidelines published annually by the State Hawaii Housing Finance and Development Corporation (HHFDC) provides a useful guideline. We are in the process of updating our administrative rules in an effort to better facilitate the production of affordable rental housing for Oahu's residents. We appreciate your patience and understanding as we work through this process.

Thank you for being a part of the solution by providing Oahu residents with more housing options. Should there be any questions, please contact the DPP Deputy Director, Jiro Sumada, at (808) 768-8000.

Very truly yours,

Dawn Takeuchi Apuna
Director